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LEADS

DEPARTMENT PASS TREASURY
E.O. 12065: GDS 4-17 86 (SWEENEY, JACK) OR-M
TAGS: EPIN, AR

SUBJECT: IDB MEETING: ARGENTINE BILATERAL
SUMMARY. ON APRIL 14 TREASURY DEPUTY SECRETARY CARSWELL
MET WITH ARGENTINE FINANCE MINISTER MARTINEZ DE HOZ. MAJOR
TOPICS OF DISCUSSION INCLUDED U.S. ACTIONS ON IRAN AND
AFGHANISTAN, ARGENTINE GRAINSALES TO RUSSIA AND PARTICIPA-
TION IN OLYMPICS. OTHER SUBJECTS COVERED WERE POSSIBLE
CHINESE MEMBERSHIP IN THE WORLD BANK, CONGRESSIONAL ACTION
ON THE IDB REPLENISHMENT, THE IMF SUBSTITUTION AMOUNT, A
BILATERAL TAX TREATY, AND THE ARGENTINE ECONOMY. OT ER
PARTICIPANTES FROM ARGENTINA INCLUDED MESSRS. IAREZZA,
SOLDATI, BLANCO, AND ZIMMERMAN; FROM THE U.S. MESSRS.
NACHMANOFF, BUSHNELL, AND SWEENEY. END SUMMARY

1. MR. CARSWELL OPENED THE MEETING WITH A DISCUSSION OF
U.S. PROBLEMS WITH IRAN AND THE RUSSIAN INTRUSION INTO
AFGHANISTAN. HE STATED THAT HE HAD BEEN DEDICATING ABOUT
ONE-THIRD OF HIS TIME TO THESE ISSUES AND THAT PRESIDENT
CARTER BELIEVED THAT THEY WERE CLEARLY OF MAJOR IMPORT-
ANCE. CARSWELL FURTHER INDICATED THAT THE U.S. WOULD CON-
TINUE TO EMPLOY POLITICAL AND ECONOMIC SANCTIONS AGAINST
IRAN AND THE USSR. HE NOTED THAT THE U.S. GOVERNMENT HAD
BLOCKED MORE THAN \$8 BILLION IN IRANIAN ASSETS, OF WHICH
\$2 BILLION WERE IN THE FEDERAL RESERVE BANK IN NEW YORK.
HE EXPRESSED APPRECIATION FOR ARGENTINA'S DECISION TO CALL
ITS AMBASSADOR TO IRAN TO BA FOR CONSULTATIONS.

2. MARTINEZ DE HOZ ACKNOWLEDGED THAT THE AFGHANISTAN SITUA-
TION WAS VERY DIFFICULT BUT HE DID NOT BELIEVE ECONOMIC

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SANCTIONS WOULD BE EFFECTIVE. RATHER POLITICAL AND MILITARY MEASURES WOULD PRODUCE BETTER RESULTS. HE INQUIRED WHETHER OTHER ARAB COUNTRIES HAD WITHDRAWN FUNDS FROM AMERICAN BANKS AS A RESULT OF U.S. SANCTIONS AGAINST IRAN.

3. MR. CARSWELL REPLIED THAT THE MEASURES HAD BEEN DISCUSSED AT LENGTH WITH OTHER ARAB COUNTRIES AND THAT THE POTENTIAL PROBLEMS ANTICIPATED FOR THE U.S. HAD NOT MATERIALIZED. ALTHOUGH THE DOLLAR HAD INITIALLY DECLINED IN FOREIGN EXCHANGE MARKETS WHEN THE SANCTIONS WERE ANNOUNCED, IT SUBSEQUENTLY STRENGTHENED AND NO MAJOR MOVEMENTS OF FUNDS HAD OCCURRED. IN FACT, THERE HAD BEEN PRACTICALLY NO CHANGE IN THE COMPOSITION OF ARAB OWNED ASSETS.

4. TURNING TO AFGHANISTAN, CARSWELL INDICATED THAT THE U.S. WOULD NOT SEND A TEAM TO THE OLYMPICS IN MOSCOW AND IT WAS SEEKING SOLIDARITY ON THIS FROM ALL OTHERS INCLUDING SOUTH AMERICAN COUNTRIES. HE EMPHASIZED THAT THIS WOULD BE PRECISELY THE KIND OF EFFECTIVE POLITICAL GESTURE WHICH MARTINEZ DE HOZ HAD EARLIER ALLUDED TO. MR. BUSHNELL ADDED THAT SUCH A JOINT EFFORT WOULD EXERT A MAJOR EFFECT IN RUSSIA WHERE THE LEADERS WOULD HAVE A DIFFICULT TIME EXPLAINING A BOYCOTT TO THE RUSSIAN PEOPLE. CARSWELL MENTIONED THAT THERE WERE NOW REPORTS THAT THE SOVIET GOVERNMENT WAS WORRIED ABOUT THIS.

5. MARTINEZ DE HOZ INQUIRED AS TO THE POSITION OF THE EUROPEANS ON THIS ISSUE AND WHETHER THERE WAS ANY TIME LIMIT FOR A RESPONSE TO THE OLYMPIC INVITATIONS.

6. MR. CARSWELL RESPONDED THAT THE SITUATION DIFFERED FROM COUNTRY TO COUNTRY--FOR EXAMPLE THE DUTCH AND GERMANS HAD INDICATED THAT THEY WOULD NOT GO AND THE FRENCH APPEARED SYMPATHETIC. ALSO THERE WAS NOW A GROWING IMPETUS FOR ALTERNATIVE GAMES TO BE HELD IN A DIFFERENT COUNTRY. BUSHNELL OPINED THAT MOST OF THE OECD COUNTRIES WOULD SOON SUPPORT WITHDRAWAL FROM THE MOSCOW GAMES AND THE FACT THAT THE U.S. OLYMPIC COMMITTEE HAD VOTED NOT TO PARTICIPATE WOULD HELP. HE ADDED THAT THE DEADLINE FOR RESPONSES TO THE OLYMPIC INVITATIONS WAS MAY 22.

7. MARTINEZ DE HOZ OBSERVED THAT IT WOULD BE BETTER TO HOLD THE OLYMPIC GAMES IN GREECE PERMANENTLY. THIS WOULD AVOID POTENTIAL POLITICAL PROBLEMS AND BE LESS COSTLY. CARSWELL AGREED THAT THE PRESENT SYSTEM WAS LARGELY UNECONOMIC AND AGAIN REQUESTED ARGENTINE SUPPORT IN MAKING THE BOYCOTT AN EFFECTIVE INTERNATIONAL RESPONSE TO RUSSIAN ACTIONS IN AFGHANISTAN.

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DEPARTMENT PASS TREASURY

8. MARTINEZ DE HOZ THEN OUTLINED THE ARGENTINE POSITION ON GRAIN SALES TO RUSSIA AND DISTRIBUTED A SHORT POSITION PAPER ON THE ISSUE. HE POINTED OUT THAT ARGENTINE GLOBAL TRADE PATTERNS HAD BEGUN TO CHANGE LONG BEFORE THE U.S. GRAIN EMBARGO. DUE TO ITS STRONG PREFERENCE FOR U.S. TECHNOLOGY AND EQUIPMENT, ARGENTINA HAS TRADITIONALLY INCURRED A SUBSTANTIAL NEGATIVE TRADE BALANCE WITH THE U.S. WHICH WAS OFFSET BY A POSITIVE TRADE BALANCE WITH WESTERN EUROPE. HOWEVER, IN RECENT YEARS THE WESTERN EUROPEAN SHARE OF ARGENTINE EXPORTS HAD DECLINED FROM 50 PERCENT TO 30 PERCENT OF THE TOTAL BECAUSE OF THE EEC AGRICULTURAL POLICIES WHILE THE SHARES OF THE LATIN AMERICAN FREE TRADE AREA AND EASTERN EUROPE, PARTICULARLY RUSSIA, HAD GAINED INCREASED IMPORTANCE. THIS HAS NOW BECOME A NORMAL TRADE PATTERN FOR ARGENTINA AND IN ORDER TO CONTINUE BUYING FROM THE U.S., IT MUST SELL AGRICULTURAL PRODUCTS TO RUSSIA.

9. MARTINEZ DE HOZ STATED THAT THE U.S. SEEMED TO BE PROCEEDING AS IF RUSSIA WERE A DEMOCRACY WHICH WAS RESPONSIVE TO DOMESTIC PUBLIC OPINION. HE OBSERVED THAT THE SOVIET GOVERNMENT IS A DICTATORSHIP WHICH WILL NOT BE OVERTHROWN AND ADDED THAT PREVENTION OF THE SPREAD OF COMMUNISM WOULD REQUIRE MORE EFFECTIVE MEASURES. HE NOTED THAT ARGENTINA AND MANY OTHER COUNTRIES HAD BECOME INCREASINGLY CONCERNED OVER THE APPARENT LACK OF U.S. RESOLVE ON THIS QUESTION AND ITS WEAK POLICY RESPONSES IN SEVERAL AREAS. ARGENTINA, ON THE OTHER HAND, HAD FOUGHT COMMUNISM WITH ITS OWN BLOOD FOR THE PAST SEVEN YEARS.

10. CARSWELL POINTED OUT THAT THE U.S. TOO HAD A NORMAL GRAIN

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TRADE PATTERN WITH RUSSIA BUT THAT THE RUSSIAN INVASION OF AFGHANISTAN CANNOT BE TREATED AS NORMAL. WERE IT TO BE IGNORED THIS COULD ENCOURAGE RUSSIA TO TAKE SIMILAR ACTIONS IN THE MIDDLE EAST. THE PROPAGANDA EFFECTS OF U.S. INITIATIVES ON THIS ISSUE HAVE BEEN IMPORTANT AND ARE NOW CLEARLY LINKED IN THE PUBLIC MIND. MOREOVER, AMONG THE POSSIBLE ALTERNATIVES PRESIDENT CARTER FELT THAT THE OLYMPICS AND GRAIN BOYCOTTS WOULD BE THE MOST PRODUCTIVE MEASURES TO UNDERTAKE AND THAT THEY WOULD BE EFFECTIVE, PARTICULARLY WITH INTERNATIONAL SUPPORT.

11. MARTINEZ DE HOZ' RESPONSE BEGAN JRTH AN OUTLINE OF THE ARGENTINE GRAIN MARKET SITUATION. HE NOTED THAT 2 MILLION TONS OF GRAIN HAD BEEN EXPORTED TO JAPAN IN 1979 BUT SUCH EXPORTS WOULD DECLINE TO ZERO THIS YEAR BECAUSE OF LOWER U.S. PRICES. HE ADDED THAT THE SPANISH AND ITALIAN MAIZE MARKET MAY ALSO FALL OFF IN 1980. FURTHERMORE, CLIMATIC CONDITIONS HAD ALSO REDUCED GRAIN PRODUCTION BY 6 MILLION TONS.

12. MARTINEZ DE HOZ CONTINUED THAT GENERAL GOODPASTER HAD BEEN THOROUGHLY BRIEFED ON WHY ARGENTINA COULD NOT ENACT ARTIFICIAL MEASURES WHICH WOULD ADVERSELY AFFECT ITS MARKET-ORIENTED POLICIES. NONETHELESS, ARGENTINA HAD AGREED TO A SECRET GENTLEMAN'S AGREEMENT WITH THE OFFICIAL RUSSIAN GRAIN AGENCY THAT NO ABNORMAL GROWTH IN DIRECT GRAIN TRADE WOULD OCCUR. OF COURSE, ARGENTINA COULD NOT CONTROL INDIRECT GRAIN SHIPMENTS BY PRIVATE FIRMS. HE POSITED THAT EVEN SOME U.S. AND CANADIAN GRAIN SOLD BY PRIVATE FIRMS WOULD END UP IN RUSSIA.

13. CARSWELL INQUIRE WHETHER IT WOULD BE POSSIBLE TO PUBLICIZE THE FACT THAT THE ARGENTINE GOVERNMENT HAD AGREED TO SOME RESTRAINTS SINCE THE PERCEPTION IN THE U.S. WAS THAT ARGENTINA HAD NO LIMIT ON GRAIN SALES TO THE SOVIETS. HE INDICATED THAT THIS WAS BEING PUBLICIZED NEGATIVELY IN THE U.S. PRESS AND ARGENTINA WAS BEING PORTRAYED AS PRO-RUSSIAN. IF THIS WAS A MISCONCEPTION, EFFORTS SHOULD BE MADE TO CORRECT THAT IMPRESSION.

14. MARTINEZ DE HOZ REPLIED THAT HE WAS CONCERNED ABOUT THE SITUATION BUT WONDERED WHETHER PUBLICIZING THE 1980 UNDERSTANDING WOULD PRODUCE THE DESIRED RESULTS OR SIMPLY EXACERBATE THE SITUATION. HE AGREED TO CONTINUE TO THINK ABOUT POSSIBLE ALTERNATIVES AND REMAIN OPEN TO ANY SUGGESTIONS THE U.S. MIGHT HAVE. (IN A SUBSEQUENT CONVERSATION BLANCO INFORMED NACHMANOFF THAT MARTINEZ DE HOZ HAD INSTRUCTED ARGENTINA NEGOTIATORS TO RESIST STRONG SOVIET PRESSURES TO AGREE TO SPECIFIC LEVELS FOR CASH YEARS. HE ALSO INDICATED THAT ARGENTINA WAS NEGOTIATING A FIVE YEAR AGREEMENT ON GRAIN SALES

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TO RUSSIA TO BEGIN IN 1981.)

15. IN RESPONSE TO A QUESTION ON WHAT THE U.S. WILL DO IF THE AFGHANISTAN SITUATION CONTINUES, CARSWELL STATED THAT U.S. ACTIONS HAD BEEN TAKEN FOR TWO REASONS--MORAL OUTRAGE AND THE POTENTIAL FOR DESTABILIZATION IN THE MIDDLE EAST. IF THE RUSSIANS WERE TO SUBJUGATE AFGHANISTAN THERE IS A DANGER THAT THEIR NEXT TARGET WOULD BE IN THE MIDDLE EAST AND THIS WOULD BE DISASTROUS FOR ALL OF US.

16. MARTINEZ DE HOZ SAID THAT ONE OF THE PROBLEMS THE U.S. FACES IN ASKING OTHER COUNTRIES TO GO ALONG IS THAT IT HAS LOST SOME CREDITIBILITY AS A RESULT OF ITS ACTIONS WITH REGARD TO THE SHAH OF IRAN, NICARAGUA, AND EL SALVADOR. HE ADDED THAT THERE SEEMED TO BE A LACK OF RESOLVE IN U.S. POLICYMAKING AND SPECULATED THAT IF THE U.S. HAD TAKEN STRONGER POSITIONS ON THESE ISSUES, PRESENT PROBLEMS MAY HAVE BEEN AVOIDED.

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DEPARTMENT PASS TREASURY

17. CARSWELL POINTED OUT THAT THE U.S. WAS TRYING TO DRAW A FIRM LINE WITH THE SOVIETS AND THAT THE PRESIDENT INTENDS TO MAKE OUR ACTIONS STICK. BUSHNELL CONTINUED THAT SET ACKS FOR THE USSR ON THE OLYMPICS AND FOOD SHORTS BECAUSE OF WIDE INTERNATIONAL SUPPORT WOULD INEVITABLY WEAKEN THOSE RUSSIAN POLICYMAKERS WHO HAD INSTIGATED THE AFGHANISTAN INVASION.

18. MARTINEZ DE HOZ THEN RAISED THE POSSIBILITY OF CHINESE MEMBERSHIP IN THE WORLD BANK AND THE IMF. HE INDICATED THAT IF THIS MATERIALIZES, A TWENTY-FIRST SEAT SHOULD BE CREATED IN THE BOARD OF GOVERNORS. THIS WOULD BE PREFERABLE TO CONTINUING WITH THE PRESENT STRUCTURE UNDER WHICH LATIN AMERICA COULD LOSE ONE OF ITS SEATS.

19. CARSWELL RESPONDED THAT IT HAS BEEN OUR VIEW THAT THE WORLD BANK AND IMF SHOULD MOVE SLOWLY ON THE QUESTION OF CHINESE MEMBERSHIP AND RESOLVE THE VARIOUS PROBLEMS, INCLUDING DISTRIBUTION OF SEATS, PRIOR TO ANY DECISION. WE WILL SUPPORT PRC MEMBERSHIP, HOWEVER, WHEN THE DECISION IS TAKEN.

20. MARTINEZ DE HOZ EXPRESSED HIS CONCERN REGARDING THE FIFTH REPLENISHMENT OF THE IDB. HE OBSERVED THAT MANY LATIN COUNTRIES WERE WORRIED AND THAT IF THE U.S. CONGRESS DID NOT APPROVE U.S. CONTRIBUTIONS, IT WOULD EXERT A HIGHLY NEGATIVE IMPACT ON U.S. RELATIONS WITH LATIN AMERICA.

21. CARSWELL REPLIED THAT THE ADMINISTRATION HAD BEEN PRESSING HARD FOR PASSAGE OF THE LEGISLATION AND WOULD CONTINUE

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22. MARTINEZ DE HOZ STATED THAT A NEW PRESIDENT TO CHAIR THE NEXT WORLD BANK-IMF MEETING WOULD SOON HAVE TO BE ELECTED AND INDICATED THAT THE URUGUAYAN CANDIDATE HAD ARGENTINA'S ENDORSEMENT. HE EXPRESSED THE HOPE THE U.S. WOULD ALSO PROVIDE ITS SUPPORT. CARSWELL INDICATED THE U.S. WOULD GIVE CONSIDERATION TO URUGUAYAN CANDIDACY. MARTINEZ DE HOZ ALSO OBSERVED THAT A CONSENSUS WAS DEVELOPING THAT BRAZIL AS CHAIRMAN OF THE IDB ASSEMBLY SHOULD ALSO BE CHAIRMAN OF THE COMMITTEE OF THE BOARD. CARSWELL INDICATED THAT THE U.S. WOULD LIKE ARGENTINA TO SIGN THE MTN SUBSIDIES CODE AND TO FINALIZE NEGOTIATIONS WITH THE U.S. ON A BILATERAL TAX TREATY. ON THE LATTER HE NOTED THAT THE TWO COUNTRIES WERE CLOSE TO AN AGREEMENT AND HOPED THAT A TREATY COULD BE WORKED OUT OVER THE NEXT FEW MONTHS. MARTINEZ DE HOZ PROMISED TO FOLLOW UP ON BOTH THESE ISSUES IN BUENOS AIRES.

23. CARSWELL RAISED THE NEED FOR PROGRESS IN THE INTERNATIONAL MONETARY AREA AND INQUIRED WHETHER ARGENTINA SUPPORTED THE IMF SUBSTITUTION ACCOUNT. HE SAID THAT THIS MECHANISM, WHILE NOT A PANACEA, WOULD BE A STEP FORWARD TO HELP INSURE A MORE FLEXIBLE WORLD MONETARY SYSTEM AND THAT THE U.S. WOULD NEGOTIATE IN GOOD FAITH TO BRING IT TO FRUITION. HOWEVER, SINCE THIS WOULD BENEFIT ALL COUNTRIES, THE U.S. WAS NOT PREPARED TO MAKE CONCESSIONS ON OTHER ISSUES TO OBTAIN THE SUPPORT OF DEVELOPING COUNTRIES. MARTINEZ DE HOZ ACKNOWLEDGED THE NEED FOR PROGRESS ON THIS ISSUE BUT FELT THAT NEGOTIATIONS SHOULD BE LINKED TO COMMODITY, TRADE, AND ENERGY PROBLEMS.

24. MARTINEZ DE HOZ CLOSED WITH A SHORT DESCRIPTION OF ARGENTINA'S PROGRESS ON REDUCING INFLATION WHICH HAD DECLINED FROM AN ANNUALIZED LEVEL OF 165 PERCENT SIX MONTHS AGO TO 46 PERCENT IN THE MOST RECENT MONTH. HE ADDED THAT THE ARGENTINE GOVERNMENT HAD PURSUED A STEADY ECONOMIC POLICY COURSE SINCE 1976 AND ALTHOUGH BOTH HE AND PRESIDENT VIDELA WOULD LEAVE OFFICE IN MARCH 1981, THE ARMED FORCES WOULD CONTINUE TO IMPLEMENT THE SAME ECONOMIC PROGRAM BEYOND THAT TIME. THIS WILL INSURE THAT WHEN DEMOCRACY IS RESTORED, IT WILL BE SUPPORTED BY A STRONG ECONOMY.

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